Board of Directors
Eleventh Annual Study
February 1984

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KORN/FERRY INTERNATIONAL

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Introduction

For 11 consecutive years, Korn/Ferry International has conducted a survey of the 1,000 largest U.S. corporations for the purpose of understanding and imparting to the business community significant trends and changes that are taking place within the board room.

Over the past decade our studies have shown that major structural changes have taken place at the board level. Korn/Ferry's most recent survey, however, indicates that what we termed the era of structural change has ended. A new board, composed largely of outside senior executives with strong operating experience, has taken the place of the rubber-stamp board.

Today, outside directors constitute the majority on most boards, and they are actively participating in a range of areas from management succession to long-term strategic planning. The new, restructured boards are stronger and more effective than ever.

This is an about-face from a time when board members served for reasons of prestige and saw their role primarily as one of support and gentle counsel for the strategies and goals of the CEO.

Without question, there is growing recognition by outside directors and CEOs that together they can pool the collective experience and intelligence of this newly structured board to benefit the company. Boards are also taking fuller advantage of the expanding committee system. In particular, the nominating committee is being cited increasingly for its participation in the selection of senior management positions and board appointees.

A Shortage of Directors

Surely, a truly independent board is an idea whose time has come. But it comes at a time, unfortunately, when there simply aren't enough qualified directors to go around. Consider the following:

- The pool of executives in the most sought-after age group, 50 to 65 years old, is severely limited because of the nation's demographic profile.
- Corporations are seeking individuals with much more specific experience.

- Pressures from various interest groups have made directors increasingly subject to criticism and attack, causing qualified directors to become reluctant to accept a new board position.
- Time demands continue to be a major burden. Respondents to our study reported that 70 percent of the directors who declined an invitation to sit on their boards cited time commitments as the primary reason.

Building a Balanced Board

Corporations not only have a smaller pool of top level directors to draw from, but they also have become much more selective. Increasingly, corporations are planning their board structure as meticulously as their five-year strategic plans. They are building balanced boards made up largely of CEOs and COOs from other companies whose background gives them special battle-tested expertise in areas such as high technology; mergers, acquisitions and divestitures; energy; marketing; and public or international affairs. They also want top level representation from other professions such as government and education. More and more, professional credentials outweigh sheer personal compatibility.

Tapping Young Stars and Proven Veterans

To bridge the age gap, companies, especially those in the billion dollar group, are drawing more heavily on retired executives from other corporations. But if they are to fill their directorships through the end of the century, they will have to tap the ranks of younger executive stars who can bring to boards a diversity of backgrounds and the reactions of generations steeped in the fast-evolving technologies of the 80s.

In fact, to meet their corporate governance goals, companies will find it advantageous to plan ahead in locating their directors throughout the 80s and into the 90s.

More Time, More Compensation

Time demands continue to be a major concern in the recruitment of top quality directors. Some progress has been made in reducing the average number of meetings from four to three for audit committees and from six to four for executive committees. But, the average number of hours spent on board matters climbed an additional two hours in 1983, and the upper quartile reported spending a full 196 hours, or nearly five 40-hour weeks per year, on board duties.

In return, corporations are rewarding their directors through increasing compensation which parallels the growth of time demands (see chart on page 6). Compensation reached a new high, with a few companies reporting annual fees of $75,000 or over, although the average 1983 increase was a modest 6.5 percent, possibly reflecting the belt-tightening brought on by the recession.

Director Preference for Perks

A much stronger interest in perks has emerged. There is a notable rise in deferral of board fees, as well as accident insurance, matching educational gifts, travel expenses for spouse and life insurance, especially in the billion dollar corporations who lead the way in establishing compensation patterns.

Stock options, however, remain controversial, with 77.8 percent of the respondents opposed to them, 12.6 percent undecided and only 4.8 percent favor their use.

It may well be time for a reappraisal of stock options for directors. If options are an effective motivation and reward mechanism for senior management, why are they so infrequently in use for board members? The seeming bias against options appears to be based on premises rooted in the past. Interestingly, 24 percent of the few who favor stock options are companies with revenues under $400 million. Undoubtedly, these companies must find options an effective means to attract qualified directors. In coming years, however, it is a form of compensation which companies of all sizes may well reconsider.

Realigning for the Future

For those companies that have been able to find and attract the kind of directors they need, boards have emerged as a powerful and beneficial force. In fact, the board is becoming exactly the kind of governing body which best fits the needs of the corporation of the 80s—a corporation with a flatter and leaner structure and three primary levels: the board; the office of the chairman, president and senior management; and divisional heads. This new structure brings the board closer to overall company strategies, objectives and operating results in order to perform its primary function of monitoring overall operations. It is a configuration which should permit U.S. industry to react quickly and to compete more effectively in today's highly volatile international markets, to adapt to the fast pace of technological development and to maintain a level of high productivity—and excellence.

Lester B. Korn

Richard M. Ferry

SUMMARY OF FINDINGS

On a question-by-question basis, the following are key findings of the Korn/Ferry International Eleventh Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a number which has remained steady since the study was launched 11 years ago. However, board size does vary in direct correlation to company size.

Small companies with revenues under $200 million have an average of nine directors. This number increases to an average of 16 directors for the largest companies with revenues of $5 billion or more. Banks have the largest boards, averaging 19 members.

2. Inside Directors vs. Outside Directors (Tables 1 and 2)

For the sixth consecutive year, the responding corporate boards have an average of four inside directors and nine outside directors (Table 1).

Respondents continue to prefer that outside directors fill a majority of board seats. This year, 81 percent state such a preference, a number which has steadily increased since 1976 (the first year this question was asked), when 62 percent indicated they prefer that more than half of their directors come from outside the company (Table 2). Banks (93 percent) and insurance companies (91 percent) express the strongest preference for outside-director dominance. And in the case of banks and other financial companies, 64 percent prefer that outside directors make up a minimum of 75 percent of their boards.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-seven percent of the respondents to this year's study report that their chairman is also their chief executive officer. This relationship occurs most frequently among banks and other financial companies, 88 percent of whom report this dual function. Forty-three percent of the respondents, primarily the smaller industrials, report that their chief executive officer is also their chief operating officer.

4. Board Composition (Table 4)

This year's study reconfirms that far-reaching changes in the composition of corporate boards have occurred over the past decade, with women, ethnic minorities, former government officials and academicians achieving major gains in representation. Conversely, representation has thinned remarkably among attorneys who provide legal services to the company, commercial bankers, investment bankers, major shareholders who are not officers of the company, and retired or previously employed corporate

officers. This year's top three categories from which directors are drawn are senior executives of other companies (89 percent), retired executives of other companies (70 percent), and academicians (52 percent) (Table 4A).

Moreover, this year's respondents have an average of five senior executives of other companies on their boards, well above the average of two or fewer for all other categories. Corporate experience was cited by 76 percent of this year's participants as the primary consideration for inviting a prospective director to sit on their board.

Women are now on 43 percent of the responding boards, up five percent from last year and up 19 percent over the past five years. Minorities are represented on more than a quarter of the boards, up 12 percent from last year and up 35 percent over five years ago. Once again, women and ethnic directors come primarily from the ranks of senior officers from other companies and academicians (Table 4B). Banks and other financial companies have the highest representation of women and minorities. Women now sit on fully three-quarters of participating financial company boards while minorities are represented on 45 percent. In spite of their increasing acceptance as outside directors, women and minorities are rarely inside directors; they sit on less than three percent of the boards.

Over the past five years, former government officials have become increasingly sought as outside directors. They are now on 30 percent of all respondent boards, up 11 percent from last year and up 30 percent from five years ago. Former government officials sit on nearly half of the billion dollar company boards and on 60 percent of the boards of companies with revenues of $3 billion and over but serve on only seven percent of the smaller company boards (under $200 million).

5. Committees (Table 5)

The most prevalent committees now in use are audit (99 percent), compensation (85 percent) and executive (80 percent). Eleven years ago, only two percent of the respondents reported having a nominating committee. This year, nearly 60 percent have one, up five percent from last year. The trend is correlated to company size. Only 35 percent of the under-$200 million companies report having nominating committees. Eighty-four percent of the largest companies ($5 billion and over) have one. Of those with nominating committees, 58 percent report that the committee participates in board committee appointments and plays a significant role in the management-succession process, along with the compensation and executive committees.

Thirteen percent of the respondents now have public affairs committees, up 29 percent over the past five years. Only six percent of the respondents currently have a corporate ethics committee, down 19 percent during the past five years (Table 5A).

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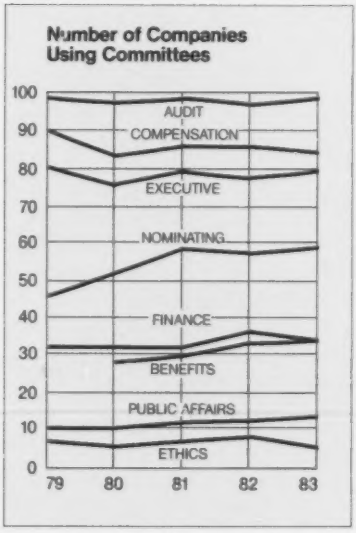
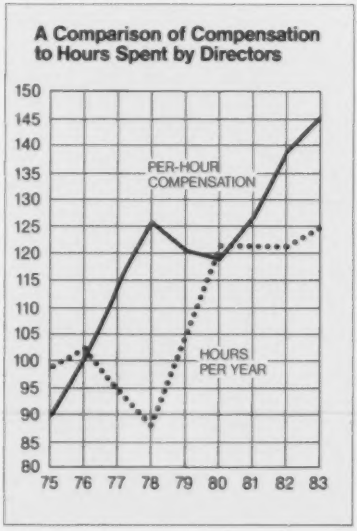
The composition of the various committees (inside directors vs. outside directors) as well as the average number of directors on each has remained constant over the past three years. Committees still have an average of four to six members. Audit and compensation committees are composed entirely of outside directors (Table 5B).

The number of committee meetings per year averages two to four, unchanged from last year. However, the number of meetings for the executive and finance committees dropped from six and seven, respectively, to four each over the last five years (Table 5C).

Although 53 percent of the respondents believe that the amount of time directors devote to committees has remained the same, 45 percent believe it has increased. Only two percent think that it has decreased.



The greatest growth has occurred in the number of companies establishing nominating committees.



Over the past two years, compensation grew faster than time spent on board duties, although both have increased dramatically since the study began.

6. Compensation (Table 6)

The annual plus per-meeting fee continues to be the predominant form of compensation for outside directors, with 85 percent of this year's respondents reporting its use. Financial institutions and insurance companies most frequently use this means of payment (93 percent). Retailers lag behind all other groups, with only 76 percent using the annual plus per-meeting fee.

Retailers lead all respondents in using the annual-fee-only system of compensation (18 percent). Among all respondents, only 13 percent use this method, down almost half from the 25 percent using it in the first study conducted in 1973. Use of the per-meeting fee as the only method of payment has also decreased since 1973 (Table 6A).

Annual Plus Per-Meeting Fee (85 percent of the respondents)

Outside directors earn an average of $18,090 per year among the respondents who use this method of compensation, up from $16,990 last year. Compensation has more than doubled since the inception of this study and has risen 42 percent from the $12,750 average of just five years ago. During this five-year period, the percentage of directors earning under $11,000 per year has decreased dramatically from 45 percent to 16 percent. At the same time, the percentage earning $25,000 and more has increased from four percent to 15 percent. Directors of banks and other financial institutions have made the largest gains over the past five years, up 57 percent from $10,820 to $17,040.

The $18,090 total average annual compensation comprises an average annual fee of $11,700 and an average per-meeting fee of $717, up from an $11,000 annual fee and a $657 per-meeting fee last year (Table 6B).

Not surprisingly, directors of billion dollar corporations earn the highest annual compensation, an average of $22,690, up from $22,040 last year. Directors of the $5 billion-and-over companies earn 54 percent more than the average of all respondents ($27,940 compared with $18,090). That compensation is more than triple the $9,270 earned by directors of the under-$200 million companies.

This year, the upper quartile average for all participants is $28,390, up 57 percent from the $18,100 recorded five years ago (Table 6C). The averages range from $13,510 for industrials under $200 million to $36,510 for companies $5 billion and over. The average for all billion dollar companies is $31,790.

Annual Fee Only (13 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 34 percent over the past five years (from $12,000 to $16,100) but remain unchanged from last year (Table 6D). The smaller companies make greater use of this form of payment, although their average compensation is nearly half that of the billion dollar companies ($10,300 compared with $20,400). None of the smaller companies pays over $18,000, while 66 percent of the billion dollar companies pay $18,000 or more.

Per-Meeting Fee Only (Two percent of the respondents)

The 11 respondents in this category report an average per-meeting fee of $514, a 12 percent increase over last year's average of $460.

7. Committee Compensation (Table 7)

Nearly 90 percent of all participants compensate their outside directors additionally for committee service (Table 7A). However, among smaller companies (under $200 million), only 18 percent offer committee compensation.

This year's study reveals a significant change in the way in which companies compensate their outside directors for committee service. The per-meeting fee only continues to be the predominant method of payment, but the percentage of companies paying in this manner is down markedly, from 72 percent last year to 60 percent. The percentage of companies that pays an annual plus per-meeting fee for committee service is rising, from 21 percent last year to 33 percent this year. Only seven percent pay an annual fee only (Table 7B).

Among the companies that pay a per-meeting fee only, fees for committee members range this year from a low of $510 for the benefits committee to a high of $650 for the finance committee. The overall average of $580 per meeting rose from last year's average of $550. Not surprisingly, fees among the billion dollar companies are higher, ranging from $590 per meeting for benefits committees up to $800 for the finance and executive committees. Committee chairmen generally command higher fees.

For companies that pay an annual plus per-meeting fee for committee service, the average annual fee is $2,990 and the average per-meeting fee is $590. For companies that pay an annual fee only, the overall average is $4,780. Again, committee chairmen average somewhat more.

8. Additional Compensation Information (Table 8)

Forty percent of the participants indicate that they increased outside director compensation during the past year, up slightly from last year. This is significantly lower than the 51 percent who raised fees five years ago. Moreover, the average increase is lower this year, $2,850 compared with $3,170 last year (Table 8A). Banks and other financial institutions lead in raising director fees with 52 percent reporting increases.

The increase rose 33 percent, from $2,210 last year to $2,950 this year. Twenty-six percent project a fee increase for the coming year (Table 8B).

Ninety-one percent of this year's participants believe that outside directors are adequately compensated. Retailers, 97 percent of whom believe that current fees are adequate, seem most content with present director compensation.

Twenty-six percent of all respondents have outside directors who receive special consulting fees.

The highest paid outside directors average $23,100 this year for all board services exclusive of any consulting arrangements, a six percent increase over last year's average of $21,720 and 38 percent more than the $16,800 five years ago. Twenty-six percent of the largest companies ($5 billion and over) compensate their highest paid outside directors with payment in excess of $40,000. The upper quartile average, included for comparative purposes, is $39,270, up from $36,550 last year (Table 8C).

This year, 34 percent of the respondents to the study report that their board chairman has primary responsibility for establishing board compensation. Twenty percent state that this is the responsibility of the compensation committee while another 20 percent say that it lies with the entire board (Table 8D). Ninety-three percent of the respondents report having a procedure whereby the board annually reviews and establishes appropriate compensation levels for the chief executive officer. Ninety percent report the same procedure for other senior officers.

Corporate boards are increasing benefits. Travel expense reimbursement (provided by 92 percent of the respondents) and directors' liability insurance (provided by 90 percent) are the most widely offered benefits.

The option of deferring board fees until retirement is growing rapidly. This year, 60 percent of the participants offer this option, up from last year's 55 percent and up from two years ago when only 44 percent offered it. Still another six percent indicate their intention of establishing this option. While only 26 percent of the smaller companies (under $200 million) have an income deferral plan, 77 percent of the largest companies ($5 billion and over) report one.

Other frequently offered benefits include accident insurance (48 percent), matching educational gifts programs (44 percent), travel expense reimbursement for spouses (25 percent) and life insurance (20 percent) (Table 8E).

This year, 19 percent of all respondents (27 percent of the billion dollar corporations) offer retirement benefits, up 58 percent over the past two years. Plans vary widely, but all use a formula weighing length of board service and fees at retirement.

9. Board Practices and Policies (Table 9)

Study respondents average eight regular board meetings per year (Table 9A). Billion dollar companies and financial institutions meet most frequently, averaging nine times per year. Fifty-seven percent average at least one board meeting away from their corporate headquarters and nine percent hold at least one of these meetings outside the United States.

Time spent on board-related business increased 19 percent over the past five years, now averaging 125 hours a year including time for review, preparation and travel as well as for meetings. Directors of the under-$200 million companies average only 78 hours per year, while directors of billion dollar companies average 152 hours. Directors of the $5 billion-and-over companies average 167 hours (Table 9B).

If compensated on an annual plus per-meeting fee basis, outside directors earned $145 per hour this year, up from $138 last year. The highest hourly rate, $156 per hour, went to directors of banks and other financial institutions. Insurance companies paid the lowest, $130 per hour.

Almost all the respondents (97 percent) allow CEOs to sit on outside public boards, but 11 percent limit the number, generally to two or three. A much lower percentage (73 percent) of chief operating officers can serve on other boards and still fewer (68 percent) of other key executives may do so. Twelve percent of respondents limit the number of outside directorships for the COO and 15 percent limit the number for their other key executives. Of these respondents with restrictions, 25 percent cite three as the maximum. Thirty-seven percent feel such a limit is not a critical factor.

Seventy-nine percent of respondents have a mandatory retirement age for directors. Only 50 percent of companies with revenues under $200 million have a mandatory retirement age, whereas 87 percent of billion dollar companies, and over 97 percent of $5 billion-and-over companies do. For the eighth consecutive year, the average retirement age for outside directors has remained unchanged at 70. The average retirement age for inside directors is 68, up from 67 last year. Nine percent of respondents state that their mandatory retirement age policy is under review.

10. Locating Outside Directors (Table 10)

Thirty-seven percent of respondents had outside directors resign from their boards during the past year. Retirement (cited by 65 percent) continues to be the major reason. Other frequently named factors include potential conflict of interest (13 percent) and time demands (12 percent).

Forty-seven percent of the respondents added one or more new outside directors to their boards during the past year. Twenty-three percent added new inside directors (Table 10A).

Board vacancies continue to be predominantly filled through recommendations by the chairman (76 percent) and by other board members (72 percent). This year, 53 percent of the respondents used the nominating committee to identify and select new directors, up from 46 percent five years ago. That percentage rises to 67 percent among the billion dollar corporations.

Recommendations from other corporate officers (37 percent) and referrals from other executive acquaintances (ten percent) declined 32 percent and 61 percent respectively over the past five years. Use of executive search firms increased again this year to ten percent, up 22 percent over the past five years. The largest companies are the most likely to use executive search firms. Thirty-two percent of the $5 billion-and-over companies now use them (Table 10B).

Corporate experience (cited by 76 percent of the respondents) is the most important consideration in selecting prospective directors. Specific industry experience (cited by 48 percent), functional experience (46 percent) and prestige (13 percent) are other primary qualities sought in prospective directors (Table 10C). Fully employed executives are preferred by 56 percent of respondents when selecting outside directors. Less than two percent prefer executives who are not working full time.

Sixteen percent of this year's respondents state that board candidates declined to serve on their boards, down somewhat from last year. Retailers experienced the most refusals, with 33 percent declining to serve, more than twice the overall average.

Time commitment is the most prevalent reason among all respondents for refusals (cited by 70 percent), followed by serving on too many boards (22 percent) and conflict of interest (20 percent) (Table 10D).

Forty percent of all respondents expect a board vacancy this year.

11. Board Issues (Table 11)

When asked to rank the relative importance of various issues facing corporate boards today, participants rate financial results highest. Forty-four percent cite it as the most important issue, double the number citing strategic planning, the second-highest rated issue. The other most significant issues include financing/capitalization (ranked as first, second or third by 31 percent), day-to-day operations (29 percent), managerial succession (23 percent) and mergers/acquisitions (18 percent) (Table 11). When participants were asked to project the ranking of these issues five years from now, day-to-day operations decreased in importance and managerial succession increased.

Financial results occupied the most board time of all issues, an estimated 25 percent. Day-to-day operations took 16 percent of board meeting time and strategic planning followed with 15 percent.

12. Participating Companies

- Size of Participating Companies (Table 12A)
- Stock Exchange of Participating Companies (Table 12B)
- Type of Participating Companies (Table 12C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	3	6	9
$200 million-$399 million	3	7	10
$400 million-$599 million	3	7	10
$600 million-$999 million	4	7	11
$1 billion-$2.999 billion	4	8	12
$3 billion-$4.999 billion	4	11	15
$5 billion and over	5	11	16
Banks and other financial institutions	4	15	19
Insurance companies	3	12	15
Retailers	5	8	13
Average	4	9	13

TABLE 2—OUTSIDE DIRECTORS ON THE BOARD

What is the minimum percentage of outside directors preferred?

Minimum %	% 1976*	% 1979	% 1983
25% and under	7.6%	5.6%	3.2%
26%-50%	21.6%	18.1%	10.8%
51%-75%	37.6%	41.7%	44.4%
76% and over	24.0%	31.0%	37.0%
No response	9.2%	3.6%	4.6%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

*First year question asked

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	76.5%	42.6%
No	22.5%	56.1%
No response	1.0%	1.3%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	% 1979	% 1982	% 1983
Senior executive (other companies)	88.4%	88.2%	89.4%
Retired or previously employed corporate officer	55.8%	46.8%	46.9%
Commercial banker	43.1%	33.6%	33.2%
Attorney (provides legal services to the company)	35.1%	28.2%	30.2%
Academician	51.6%	50.4%	51.7%
Investment banker	28.3%	23.7%	22.9%
Major shareholder (not officer of the company)	32.2%	30.4%	30.4%
Attorney (does not provide legal services to the company)	32.1%	33.7%	34.3%
Former government official	23.2%	27.2%	30.2%
Female	36.4%	41.2%	43.4%
Ethnic minority member	19.2%	23.2%	25.9%
Non-U.S. citizen	16.7%	17.0%	15.4%
International executive (American)	11.4%	7.5%	8.1%
"Professional" director	N.A.	19.5%	18.2%
Retired executive (other companies)	N.A.	66.3%	70.0%

└— FIVE-YEAR TREND —┘

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior executives (other company)	26.7%	30.1%
Academicians	24.4%	25.0%
Former government officials	12.6%	12.8%
Attorneys (do not provide legal services)	8.8%	17.9%
Major shareholders (not officers of the company)	9.5%	1.3%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1979	% 1982	% 1983
Audit	98.9%	98.2%	99.2%
Compensation	90.2%	86.3%	84.6%
Executive	80.8%	78.4%	80.4%
Nominating	46.7%	56.6%	59.4%
Benefits	N.A.	32.9%	34.5%
Finance	31.9%	35.7%	34.3%
Public affairs	9.8%	11.8%	12.6%
Corporate ethics	7.2%	8.0%	5.8%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Nominating	1	4	5
Benefits	1	3	4
Finance	2	4	6
Public affairs	1	4	5
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1979 Average Number Of Meetings	1983 Average Number Of Meetings
Audit	4	3
Compensation	4	4
Executive	6	4
Nominating	2	2
Benefits	3	3
Finance	7	4
Public affairs	3	3
Corporate ethics	2	2

FIVE-YEAR TREND

TABLE 6—COMPENSATION

6A. How are board members compensated?

Compensation	% 1979	% 1982	% 1983
Annual plus per-meeting fee (see Table 6B and Table 6C for amounts)	80.1%	84.8%	84.5%
Annual fee only (see Table 6D for amounts)	14.6%	11.8%	12.8%
Per-meeting fee only	5.1%	2.5%	1.7%
No response	0.2%	0.9%	1.0%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

6B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1979	% 1982	%1983
Under $5,000	20.6%	7.7%	4.9%
$5,000-$6,999	22.2%	14.1%	10.2%
$7,000-$10,999	35.7%	28.8%	30.4%
$11,000-13,999	14.0%	18.9%	18.2%
$14,000 and over	7.5%	29.5%	35.7%
Unspecified	—	1.0%	0.6%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

1983 Average Annual Fee $11,700

PLUS

Amount Per Meeting	% 1979	% 1982	% 1983
Under $250	4.1%	1.9%	2.4%
$250-$449	33.5%	15.1%	11.6%
$450-$599	40.0%	33.4%	34.3%
$600-$799	14.5%	31.9%	30.0%
$800 and over	7.4%	16.6%	21.0%
Unspecified	0.5%	1.1%	0.7%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

1983 Average Per-Meeting Fee $717

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1979	% 1982	%1983
Under $7,000	15.0%	5.5%	2.2%
$7,000-$10,999	29.6%	15.7%	13.6%
$11,000-$13,999	19.5%	16.3%	15.1%
$14,000-$16,999	15.2%	16.9%	18.9%
$17,000-$19,999	9.0%	14.5%	14.9%
$20,000-$24,999	8.1%	20.0%	20.6%
$25,000 and over	3.6%	11.1%	14.7%
TOTAL	100.0%	100.0%	100.0%
Average	$12,750	$16,990	$18,090

└ FIVE-YEAR TREND ┘

6C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million-$399 million	$14,680	$21,280
$400 million-$599 million	$16,740	$28,940
$600 million-$999 million	$16,780	$24,260
$1 billion-$2.999 billion	$19,490	$26,810
$3 billion-$4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$36,510
Banks and other financial institutions	$17,040	$25,930
Insurance companies	$15,050	$24,520
Retailers	$19,120	$27,500
Average	$18,090	$28,390

6D. Annual Fee Only

Annual Fee Amount	% 1979	% 1982	% 1983
Under $7,000	19.7%	12.5%	5.1%
$7,000-$9,999	13.6%	12.5%	11.5%
$10,000-$11,999	13.6%	8.3%	15.4%
$12,000-$13,999	17.3%	18.1%	5.1%
$14,000-$15,999	17.3%	11.1%	15.4%
$16,000-$19,999	11.1%	8.4%	15.4%
$20,000 and over	7.4%	29.1%	32.1%
TOTAL	100.0%	100.0%	100.0%
Average	$12,000	$16,100	$16,100

└ FIVE-YEAR TREND ┘

TABLE 7—COMMITTEE COMPENSATION

7A. Are outside directors paid an extra fee for serving on a committee?

	% 1979	% 1983
Yes	86.8%	89.4%
No	10.9%	9.6%
No response	2.3%	1.0%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

7B. If yes, how are they compensated?

	% 1982	% 1983
Per-meeting fee only	72.0%	59.7%
Annual plus per-meeting fee	21.4%	32.5%
Annual fee only	6.6%	7.4%
No response	—	0.4%
TOTAL	100.0%	100.0%

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. Has board compensation been raised within the last 12 months?

	% 1983
Yes	39.8%
No	59.7%
No response	0.5%
TOTAL	100.0%

If yes, by how much?

Type and Size of Company	1982 Increase	1983 Increase
Industrials		
Under $200 million	$1,760	$1,390
$200 million-$399 million	$2,030	$2,100
$400 million-$599 million	$2,260	$2,430
$600 million-$999 million	$2,580	$2,640
$1 billion-$2.999 billion	$3,110	$3,540
$3 billion-$4.999 billion	$2,860	$3,030
$5 billion and over	$5,820	$3,340
Banks and other financial institutions	$4,410	$3,000
Insurance companies	$2,750	$2,500
Retailers	$2,560	$3,333
Average	$3,170	$2,850

8B. Do you contemplate raising board compensation in the next year?

	% 1983
Yes	25.5%
No	71.7%
No response	2.8%
TOTAL	100.0%

If yes, by how much?

Type and Size of Company	1983 Average Amount of Projected Increase
Industrials	
Under $200 million	$1,500
$200 million-$399 million	$1,580
$400 million-$599 million	$2,880
$600 million-$999 million	$3,700
$1 billion-$2.999 billion	$2,910
$3 billion-$4.999 billion	$2,750
$5 billion and over	$4,640
Banks and other financial institutions	$3,290
Insurance companies	$2,360
Retailers	$4,390
Average	$2,950

8C. How much did the highest paid outside director receive in 1983 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1979 Average Compensation	1983 Average Compensation	1983 Upper Quartile Average
Industrials			
Under $200 million	$10,200	$11,640	$18,910
$200 million-$399 million	$12,370	$16,800	$22,420
$400 million-$599 million	$13,920	$17,440	$26,580
$600 million-$999 million	$14,900	$20,590	$31,100
$1 billion-$2.999 billion	$23,160	$25,780	$38,220
$3 billion-$4.999 billion	$22,530	$31,890	$43,170
$5 billion and over	$26,600	$35,770	$54,250
Banks and other financial institutions	$17,290	$23,980	$37,460
Insurance companies	$16,830	$22,100	$42,880
Retailers	$13,750	$23,050	$42,180
Average	$16,800	$23,100	$39,270

FIVE-YEAR TREND

8D. Who is primarily responsible for establishing board compensation?

	%
Chairman	34.2%
Compensation committee	19.9%
Entire board	20.2%
Combination of above	28.9%

8E. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1983
Travel expense reimbursement	86.4%	92.4%
Directors' liability insurance	85.6%	90.0%
Deferral of board fees until retirement	55.3%	60.2%
Accident insurance	43.4%	48.3%
Matching educational gifts program	40.1%	44.3%
Travel expenses for spouse	23.7%	25.4%
Life insurance	18.8%	20.1%
Retirement income plan	14.4%	18.7%
Stock options	N.A.	1.5%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	18.2%
5-6	29.2%
7-9	18.7%
10-12	31.8%
13 and over	1.8%
No response	0.3%
TOTAL	100.0%
Average	8 meetings

9B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1979	% 1983
Under 40	10.3%	6.1%
40 to 70	27.5%	18.4%
71 to 100	25.4%	23.1%
101 to 130	9.8%	12.8%
131 to 160	4.5%	11.3%
161 to 190	1.6%	5.3%
191 and over	5.7%	10.3%
No response	15.2%	12.7%
TOTAL	100.0%	100.0%
Average	105 hours	125 hours

FIVE-YEAR TREND

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	78	124
$200 million-$399 million	115	177
$400 million-$599 million	94	163
$600 million-$999 million	124	189
$1 billion-$2.999 billion	150	203
$3 billion-$4.999 billion	138	193
$5 billion and over	167	236
Banks and other financial institutions	109	195
Insurance companies	116	193
Retailers	130	181
Average	125	194

TABLE 10—LOCATING OUTSIDE DIRECTORS

10A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	53.9%	43.6%
One	16.9%	27.9%
Two	4.3%	13.1%
Three or more	1.5%	5.5%
No response	23.4%	9.9%
TOTAL	100.0%	100.0%

10B. How are outside directors located for the board?

	% 1979	% 1983
Recommendation of chairman	77.7%	76.0%
Recommendation of board members	79.7%	71.5%
Nominating committee	46.4%	53.1%
Recommendation of other corporate officers	53.8%	36.7%
Referral from executive acquaintances	24.3%	9.5%
Executive search	7.8%	9.5%

FIVE-YEAR TREND

10C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate experience	76.3%
Specific functional experience	46.1%
Specific industry experience	48.4%
Prestige	12.8%

10D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1982	% 1983
Yes	18.1%	15.8%
No	78.7%	82.6%
No response	3.2%	1.6%
TOTAL	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1982	% 1983
Time commitment	70.0%	69.5%
On too many boards	30.9%	22.1%
Conflict of interest	21.8%	20.0%

TABLE 11—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	44.1%	64.2%	74.5%
Strategic planning	21.7%	44.3%	61.7%
Financing/Capitalization	2.7%	13.3%	31.2%
Day-to-day operations	10.1%	21.2%	28.5%
Managerial succession	6.5%	14.0%	23.0%
Mergers/Acquisitions	0.8%	6.9%	18.3%
Corporate ethics	1.7%	4.2%	6.7%
Shareholder relations	0.3%	1.1%	4.4%
Multinational issues	0.3%	2.1%	5.1%
Government relations	0.2%	1.7%	3.5%
Public relations	0.2%	0.9%	1.6%
Board compensation	0.2%	0.9%	1.6%

TABLE 12—PARTICIPATING COMPANIES

12A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	46	7.6%
$200 million-$399 million	74	12.3%
$400 million-$599 million	49	8.0%
$600 million-$999 million	59	9.8%
$1 billion-$2.999 billion	112	18.6%
$3 billion-$4.999 billion	46	7.6%
$5 billion and over	57	9.5%
Banks and other financial institutions	73	12.1%
Insurance companies	54	9.0%
Retailers	33	5.5%
TOTAL	603	100.0%

12B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.1%
American Stock Exchange	4.6%
Over-the-counter	13.9%
Other (private, mutual)	9.0%
No response	1.4%
TOTAL	100.0%

12C. Type of Participating Companies*

	%
Industrial	73.4%
Banking and other financial	12.1%
Insurance	9.0%
Retail	5.5%
TOTAL	100.0%

** This year, 1,000 companies were asked to participate. There were 603 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies (included in our Industrial classification), the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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1984 ANNUAL BOARD OF DIRECTORS STUDY

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1984 Annual Board of Directors Study
of Retail Companies

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Where appropriate, comparisons are made with all responding corporations in our study.*

1. Size of Board (Table 2)

Boards of directors of retail respondents have an average of 13 members -- the same as for all respondents. The largest retailers (with revenues of $2 billion or more) however, average a total of 14 directors.

2. Inside Directors vs. Outside Directors (Table 2)

Although retailers have the same average board size as all respondents, the retail boards are composed of one more inside directors and one less outside director than the boards of all respondents. Seventy-six percent prefer that more than half their board come from outside the company

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* This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total of which 215 have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.

(compared to 81 percent of all respondents), while only 27 percent prefer three-quarters or more be outside directors (vs. 37 percent of all respondents).

3. Is the Chairman also the CEO?
   Is the CEO also the COO (Table 3)

   Seventy-six percent of the retail respondents report that their chairman is also their chief executive officer. Forty-two percent note that their chief executive officer is also their chief operating officer.

4. Board Composition (Table 4)

   Retailers continue to rely on senior executives of other companies as the primary source for outside directors. However, the percentage of retailers having these executives on their boards has decreased. Now at 76 percent, it is down from 83 percent last year and is the lowest of all groups responding to this study. Also, retired executives of other companies (the second largest source of outside directors) have lower representation, down from 67 percent last year to 64 percent this year.

   Sixty-one percent of the retailers have women on their board -- well above the 43 percent for all respondents

(Table 4A). Among the largest retailers ($2 billion and over), 81 percent have women on their boards -- the highest percentage of any responding group to the study. Retailers primarily draw their women outside directors from the ranks of senior executives of other companies and academia (Table 4B). Minorities are on 36 percent of retail boards, compared with 26 percent of all respondents. They are primarily senior executives of other companies and academicians.

Other groups which are highly represented on retail boards include academicians (on 55 percent), retired or previously employed corporate officers (on 52 percent) and major shareholders who are not officers of the company (on 42 percent). In fact, retailers have the largest percentage of major shareholders who are board members of all the respondents.

Over the past five years, there have been other major shifts in the composition of retail boards. Along with senior executives of other companies, other groups experiencing a significant decrease in representation include:

- Retired or previously employed corporate officers (from 60 percent to 52 percent).
- Commercial bankers (from 34 percent to 27 percent).

- Attorneys who provide legal services to the company (from 37 percent to 27 percent).
- Investment bankers (from 31 percent to 24 percent).

Conversely, groups experiencing significant increases in representation include:

- Women (from 49 percent to 61 percent).
- Ethnic minorities (from 23 percent to 36 percent).
- Academicians (from 49 percent to 55 percent).
- Former government officials (from 9 percent to 15 percent).
- Non-U.S. citizens (from none five years ago to 9 percent today).

5. Committees

The most prevalent committees among the retail respondents continue to be the audit committee (now reported by 100 percent of the retailers), the executive (reported by 91 percent), and the compensation (reported by 85 percent) (Table 5A). Along with the insurance companies, retailers lead in the use of executive committee. The 91 percent reporting it is up from 83 percent last year and is considerably above the [illegible] percent of all respondents citing its use.

Fifty-eight percent of the retailers have a nominating committee. Of those, 68 percent note that the nominating committee participates in board committee appointment, the most of all respondents. With the compensation and executive committees, the nominating committee plays a significant role in the management succession process in retail organizations.

The public affairs and executive committees are the largest, averaging six directors each. All other average four or five. Overall, committee size increased this year with the executive and benefits committees each gaining a member. The audit and compensation committees are composed entirely of outside directors while the executive and finance have the most inside directors -- two (Table 5B).

Except for the executive, which meets twice, and the compensation, which meets four times, all other committees average three meetings per year (Table 5C).
Forty-six percent of the retail respondents believe the amount of time devoted to committees is increasing.

6. Compensation (Table 6)

Seventy-six percent of the retailers compensate their outside directors on an annual plus per-meeting basis -- the smallest percentage of all respondents. Conversely,

they have the highest percentage paying an annual fee only (18 percent vs. 13 percent for all respondents) and a per-meeting fee only (6 percent vs. 2 percent).

- Annual Plus Per-Meeting Fee (76 percent of the respondents)

The retail respondents increase the total average annual compensation for their outside directors by 13 percent this year to $19,120, compared with $16,950 last year. This is six percent more than the total compensation for all respondents ($18,090). The total comprises an average annual fee of $13,800 and an average per-meeting fee of $634.

The upper quartile average for retailers, included in this section for comparative purposes, is $27,500 -- up eight percent from last year's $25,410 but somewhat below the $28,390 average for all respondents.

- Annual Fee Only (18 percent of the respondents)

For retailers using this method of compensation, the average annual fee is $13,700 -- up ten percent from last year's $12,500. The average for all respondents is $16,100.

- Per-Meeting Fee Only (6 percent of the respondents)

For retail directors compensated in this manner, the average per-meeting fee is $275.

7. Committee Compensation (Table 7)

Nearly all the retail respondents pay their outside directors additionally for committee service. The 97 percent reporting this extra compensation is a high for the study and compares with 89 percent for all respondents. But, as with all respondents, the method of compensation has shifted. While most still pay a per-meeting fee only, the percentage paying in this manner has dropped considerably from 73 percent last year to 56 percent this year. The shift has been to the annual plus per-meeting fee system of compensation -- up from 19 percent last year to 34 percent this year. Six percent pay a per-meeting fee only.

Among retailers paying a per-meeting fee only, average committee fees range from $400 to $620 per meeting with an overall average of $570. The average total compensation for outside directors receiving annual plus per-meeting fee ranges from $2,180 to $4,100 per year with an overall average of $2,650. Committee chairmen are generally compensated at a higher rate than members.

8. Additional Compensation Information (Table 8)

Forty-two percent of the retail respondents raised outside director fees an average $3,333 during the past 12 months. This is significantly more than the average increase of $2,850 for all respondents and probably accounts for the total average compensation of retail directors outpacing the average for all respondents this year. One-third of the retailers project increasing board fees an additional $4,390 during the next 12 months.

The highest paid outside retail director earns an average $23,050 per year for all board services exclusive of any consulting arrangements. This represents a 21 percent increase over last year's average of $18,980 and brings retailers almost to the overall average of $23,100. The upper quartile average in this category is $42,180 for retail directors -- higher than the average $39,270 for all directors (Table 8A). Twenty-one of the retail respondents have outside directors who also receive consulting fees.

As with all directors, benefits are becoming an increasingly important part of compensation plans for outside directors of retail companies. Travel expense reimbursement and directors' liability insurance are now commonly included, reported by 91 percent and 94 percent respectively. More than half allow their outside directors

to defer board fees until retirement. Fifteen percent provide retirement income plans (up from 6 percent two years ago). Other benefits which have made significant gains this year include matching educational gifts programs (cited by 27 percent vs. 17 percent last year), life insurance (21 percent vs. 13 percent) and accident insurance (39 percent vs. 33 percent). Retailers, however, still lag behind all respondents in the benefits they provide (Table 8B).

Eighty-eight percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for their chief executive officers as well as for other senior officers. Ninety-seven believe that their outside directors are adequately compensated -- the highest percentage expressing this view of all groups participating in the study.

9. Board Practices and Policies (Table 9)

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents. Sixty-seven percent hold at least one of these meetings outside their headquarters or major facility city.

The estimated numbers of hours outside directors of retail companies devote annually to board-related business

increased substantially this year to 130 hours (up from 93 last year and up from 71 five years ago). If compensated on an annual plus per-meeting basis, these directors earn an average $147 per hour -- slightly more than the $145 hourly rate for all respondents. The upper quartile average number of hours for retail directors is 181 (Table 9A).

Although 21 percent of the retail respondents had an outside directors resign from the board, primarily due to retirement, 55 percent added new outside directors to their boards. In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of their chairman and other board members. The use of the nominating committee, however, continues to grow. This year, 52 percent cited its use in the selection process, up from 47 percent last year (Table 9B). Corporate experience continues to be the primary consideration in asking prospective directors to sit on the board (Table 9C). Thirty-three percent had a prospective director decline an invitation to serve on their board -- more than double the 16 percent for all respondents and the highest percentage reported in the study.

10. Board Issues (Table 9)

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, like all respondents, rate financial results well above the other issues. Eighty-two percent ranked it first, second or third. Strategic planning, the second most important issue, was ranked in as one, two or three by 55 percent. Other significant issues include financing/capitalization, day-to-day operations and managerial succession.

TABLE 1 - PARTICIPATING COMPANIES

Thirty-three of America's major retailers participated in our Eleventh Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	12	36.4%
$2 billion and over	21	63.6%
TOTAL	33	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	26	78.8%
Over-the-Counter	3	9.1%
Other	4	12.1%
TOTAL	33	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	4	7	11
$2 billion and over	5	9	14
Average	5	8	13

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	75.8%	42.4%
No	24.2%	51.5%
No Response	---	6.1%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1979 Retailers	1983 Retailers	1983 All Companies Surveyed
Senior Executive (other companies)	80.0%	75.8%	89.4%
Retired or Previously Employed Corporate Officer	60.0%	51.5%	46.9%
Commercial Banker	34.3%	27.3%	33.2%
Attorney (provides legal services to the company)	37.1%	27.3%	30.2%
Academician	48.6%	54.5%	51.7%
Investment Banker	31.4%	24.2%	22.9%
Major Shareholder (not officer of the company)	40.0%	42.4%	30.4%
Attorney (does not provide legal services to the company)	25.7%	27.3%	34.3%
Former Government Official	8.6%	15.2%	30.2%
Female	48.6%	60.6%	43.4%
Ethnic Minority Representative	22.9%	36.4%	25.9%
Non-U.S. Citizen	---	9.1%	15.4%
"Professional" Director	N.A.	21.2%	18.2%
Retired Executive (other companies)	N.A.	63.6%	70.0%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	40.0%	41.7%
Academicians	25.0%	25.0%
Former Government Officials	10.0%	8.3%
Attorneys (do not provide legal services)	10.0%	16.7%
Retired Executives (other companies)	20.0%	---

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1979 Retailers	1983 Retailers	1983 All Companies Surveyed
Audit	100.0%	100.0%	99.2%
Executive	88.6%	90.9%	80.4%
Compensation	91.4%	84.8%	84.6%
Finance	40.0%	42.4%	34.3%
Nominating	60.0%	57.6%	59.4%
Public Affairs	8.6%	18.2%	12.6%
Benefits	N.A.	36.4%	34.5%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	0	4	4
Finance	2	3	5
Public Affairs	1	5	6
Nominating	1	4	5
Benefits	1	3	4

5C. How many committee meetings were held during the past twelve months?

Committee	1982 Average Number of Meetings	1983 Average Number of Meetings
Audit	3	3
Executive	4	2
Compensation	3	4
Finance	2	3
Public Affairs	2	3
Nominating	1	3
Benefits	3	3

TABLE 6 - COMPENSATION

Annual plus Per-Meeting Fee (75.8% of the Respondents)

Annual Fee Amount	%
Under $7,000	4.0%
$7.000 - $10,999	12.0%
$11,000 - $13,999	36.0%
$14,000 - $16,999	28.0%
$17,000 - $19,999	12.0%
$20,000 and over	8.0%
TOTAL	100.0%
Average Annual Fee	$13,800

PLUS

Amount Per Meeting	%
Under $500	4.0%
$500 - $599	48.0%
$600 - $799	32.0%
$800 and over	16.0%
TOTAL	100.0%
Average Per-Meeting Fee	$634

EQUALS

Total Annual Compensation	%
Under $14,000	12.0%
$14,000 - $16,999	24.0%
$17,000 - $19,999	20.0%
$20,000 - $24,999	32.0%
$25,000 and over	12.0%
TOTAL	100.0%
Average Total Annual Compensation	$19,120

Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$19,120	$27,500
Banks and other Financial Institutions	$17,040	$25,930
Insurance Companies	$15,050	$24,520
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million - $399 million	$14,680	$21,280
$400 million - $599 million	$16,740	$28,940
$600 million - $999 million	$16,780	$24,260
$1 billion - $2.999 billion	$19,490	$26,810
$3 billion - $4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$33,510
Average	$18,090	$28,390

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	97.0%
No	3.0%
TOTAL	100.0%

If yes, how are they compensated?

Compensation	% 1982	% 1983
Per-Meeting Fee Only	73.1%	56.2%
Annual plus Per-Meeting Fee	19.2%	34.4%
Annual Fee Only	7.7%	6.2%
No Response	---	3.1%
TOTAL	100.0%	100.0%

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1983 for all board service activities exclusive of any consulting arrangement?

Amount	%
Under $7,000	9.1%
$7,000 - $16,999	12.1%
$17,000 - $19,999	15.2%
$20,000 - $24,999	27.2%
$25,000 - $29,999	15.2%
$30,000 - $39,999	12.1%
$40,000 and over	9.1%
TOTAL	100.0%
Average	$23,050

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$23,050	$42,180
Banks and other Financial Institutions	$23,980	$37,460
Insurance Companies	$22,100	$42,880
Industrials		
Under $200 million	$11,640	$18,910
$200 million - $399 million	$16,800	$22,420
$400 million - $599 million	$17,440	$26,580
$600 million - $999 million	$20,590	$31,100
$1 billion - $2.999 billion	$25,780	$38,220
$3 billion - $4.999 billion	$31,890	$43,170
$5 billion and over	$35,770	$54,250
Average	$23,100	$39,270

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	90.9%	92.4%
Directors Liability Insurance	93.9%	90.0%
Deferral of Board Fee Until Retirement	51.5%	60.2%
Accident Insurance	39.4%	48.3%
Travel Expenses for Spouse	24.2%	25.4%
Matching Educational Gifts Program	27.3%	44.3%
Life Insurance	21.2%	20.1%
Retirement Income Plan	15.2%	18.7%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annual on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
40 and under	9.1%
41 to 70	9.1%
71 to 100	12.1%
101 to 160	42.4%
161 and over	9.1%
No Response	18.2%
TOTAL	100.0%
Average	130 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	130	181
Banks and other Financial Institutions	109	195
Insurance Companies	116	195
Industrials		
Under $200 million	78	124
$200 million - $399 million	115	177
$400 million - $599 million	94	163
$600 million - $999 million	124	189
$1 billion - $2.999 billion	150	203
$3 billion - $4.999 billion	138	193
$5 billion and over	167	236
Average	125	194

9B. How are outside directors located for the board?

	%
Recommended by chairman	81.8%
Recommended by board members	66.7%
Nominated by committee	51.5%
Recommended by other corporate officers	39.4%
Executive search	12.1%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	69.7%
Specific Functional Experience	51.5%
Specific Industry Experience	36.4%
Prestige	15.2%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	51.5%	75.7%	81.8%
Strategic planning	15.2%	36.4%	54.6%
Financing/capitalization	3.0%	15.1%	39.3%
Day-to-day operations	12.1%	24.2%	33.3%
Managerial succession	9.1%	15.2%	24.3%
Mergers/acquisitions	---	6.1%	9.1%
Shareholder relations	3.0%	6.0%	6.0%
Corporate ethics	---	6.1%	9.1%

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Board of Directors
Eleventh Annual Study
Billion Dollar Corporations
Supplement 1984

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KORN/FERRY INTERNATIONAL
ELEVENTH ANNUAL BOARD OF DIRECTORS STUDY OF
BILLION DOLLAR CORPORATIONS

Introduction

As part of our annual study of the board practices and policies of major U.S. corporations, we make a special analysis of the statistical data for companies with revenues of $1 billion and over. This year, 215 billion dollar industrial and service companies participated in our study.

Eleven years' surveys clearly show that these giants of American industry are trend setters. Most visible, and subject to closer public scrutiny than smaller enterprises, they feel most strongly the need to respond to the suggestions and demands of regulatory agencies, shareholders, employees and consumer groups. They have been in the forefront, therefore, of finding new approaches to corporate governance and, despite their size, they show a healthy degree of flexibility which is a positive indication of the vitality of American business.

The bigger the company, the more outside directors it is likely to have. This past year the 103 companies with revenues of $3 billion and over were the only group of all respondents to increase the number of outside directors on their boards.

With 39 percent of the billion dollar companies expecting a board vacancy in the coming year, it is clear that locating new directors is of paramount importance. These large corporations continue to rely heavily on the recommendations of the chairman and other board members, but increasingly are including the nominating committee in the selection process.

For their boards, billion dollar companies draw heavily on the most sought-after groups of qualified individuals, senior executives of other companies and academicians. They also rely on retired executives from other companies to a greater degree than the average of all companies surveyed (79.5 percent versus 70 percent).

Especially sensitive to the impact of public policy on their operations, large corporations have been increasing the number of top level government officials on their boards (from 36 percent to 48 percent over five years, with over a third of that increase occurring last year).

In contrast, there is a marked decrease over the past five years in the number of formerly employed corporate officers and commercial bankers on these companies' boards. The data suggest that billion dollar companies are particularly eager to structure a board which is clearly independent.

This marked sensitivity to public opinion and the desire to project an image of social responsibility are also reflected in the greater use of public affairs committees and in the high level of representation on their boards by women and minorities. This year, 50 percent report women on their boards, and ethnic minorities now sit on 35 percent of billion dollar companies' boards.

There is evidence, also, that the largest companies are finding ways to use their committees more effectively and to make the entire board more productive. Not only have these giants of industry led the way in reducing the number of meetings for their audit and executive committees, but they are also making greater use of the nominating, finance, and public affairs committees. This trend should save directors time by allowing committees to examine and screen major issues before they are brought to the full boards.

Ninety percent of the billion dollar companies state that, in general, they believe their outside directors are adequately compensated. Their level of compensation for directors, as well as corporate officers, is traditionally higher than those of smaller companies. Over the past five years, it has increased 29 percent, but last year accounted for only 2.9 percent of that increase. However, there is a notable rise in the use of perks such as deferred compensation, accident insurance, matching educational gifts, travel expenses for spouse, and life insurance.

The above highlights some of the important trends reflected in the answers of the billion dollar corporations that participated in our survey. A more detailed discussion of trends follows in the Summary of Findings.

Lester B. Korn

Richard M. Ferry

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to billion dollar corporations (Table 1). Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

The billion dollar corporations continue to have an average of 14 directors, one more than the 13 averaged by all respondents. The average for the largest comanies, $5 billion and over, did, however, increase this year to 16 from 15. Banks and other financial institutions continue to have the largest boards, averaging 19 directors.

2. Inside Directors vs. Outside Directors (Table 2)

Outside directors compose the majority of board members among the billion dollar corporations, and most other respondents.

This year, billion dollar corporations have an average of only four inside directors compared with ten outside directors, and 81 percent prefer a majority of outside directors.

3. Is the Chairman also the CEO?
Is the CEO also the COO? (Table 3)

This year, 79 percent of the billion dollar corporations report that their chairman serves as their chief executive officer, down from 84 percent last year, yet higher than the average of 77 percent among all corporations surveyed.

Only 39 percent of the billion dollar respondents have a chief executive officer who also acts as chief operating officer. And among the largest, $5 billion and over, the average is only 33 percent. These percentages are well below the 43 percent of all respondents who report this relationship.

4. Board Composition (Table 4)

The trend toward independent outside directors is even more pronounced among the billion dollar companies. Outside directors come from the following categories: executives of other companies (93 percent), retired executives of other companies (80 percent) and academicians (66 percent). Directors from these categories are sought because they are thought to be independent from corporate management. Further emphasizing the trend to independent outside directors is the marked decrease over the past five years in representation of retired or previously employed corporate officers, commercial bankers, attorneys who provide legal services to the company and investment bankers—groups more aligned with management.

**This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total, of which 215 companies have revenues in excess of $1 billion. Bank[illegible]nd other financial institutions account for 12 percent, insurance companies [illegible]ine percent and retailers for six percent.*

Larger companies have more former government officials sitting on their boards; 48 percent compared with 30 percent for all respondents and only seven percent for smaller industrials with revenues under $200 million. The percentage of billion dollar corporations with former government officials on their boards has risen 34 percent in five years.

Women and ethnic minorities continue to constitute major sources of outside directors for the billion dollar corporations. Over the past five years, representation from these two groups increased significantly. This year, 50 percent report women on their boards, up 17 percent from five years ago. Seventy-four percent of the $5 billion-and-over companies have women directors. Ethnic minorities now sit on 35 percent of the billion dollar boards, up 22 percent over the past five years (Table 4A). Women and ethnic minorities are primarily academicians, senior officers of other companies, former government officials and attorneys who do not provide legal services to the company (Table 4B).

As part of the trend toward more independent outside directors, the billion dollar corporations seek executives with considerable business experience, a primary consideration for 79 percent of the respondents. As noted, the percentage reporting senior and retired executives from other companies is far greater than any of the other groups in the study. Furthermore, these companies average four senior executives and two retired executives of other companies on their boards, above all other groups.

5. Committees (Table 5)

Among the billion dollar corporations, the audit, compensation and executive committees are most prevalent. The audit committee is almost universally used (99 percent). The compensation and executive committees decreased in use over the past five years. Compensation committees exist in 85 percent of billion dollar corporations, down from 97 percent five years ago. The number of companies using executive committees declined to 84 percent from 87 percent five years ago. On the other hand, the use of nominating, finance and public affairs committees is increasing.

Three-quarters of billion dollar respondents use a nominating committee, 84 percent of the $5 billion-and-over companies. Up from 67 percent five years ago, its growth has been steady (Table 5A). Among corporations with nominating committees, 55 percent use the committee in board committee appointments and 27 percent use the committee in the management succession process. The other committees that play a significant role in the management selection process among the billion dollar companies are the compensation and the executive committees (42 percent and 16 percent respectively).

Billion dollar corporations are among the leaders in the use of the public affairs committee. Nineteen percent now have one, compared to 13 percent for all respondents, and 35 percent of the largest companies, $5 billion and over, have a public affairs committee.

Committee composition has not changed at all over the past two years. Committees have an average of four to six directors; the executive and finance committees are the largest. The audit, compensation and benefits committees are composed entirely of outside directors (Table 5B).

The average number of meetings each committee holds per year has changed very little over the 11 years of the study. This year benefits committees met three times, down from four. The nominating committee usually meets twice and all other committees three or four times (Table 5C).

Forty-nine percent of the billion dollar companies report that the time directors devote to committee meetings is increasing.

6. Compensation (Table 6)

Eighty-four percent of the billion dollar respondents compensate outside directors on an annual plus per-meeting fee basis, down from 90 percent last year. There is a corresponding increase in the percentage paying an annual fee only—to fourteen percent this year from nine percent last year.

—Annual Plus Per-Meeting Fee (84 percent)

This year, outside directors of the billion dollar companies that pay an annual plus per-meeting fee earned an average total compensation of $22,690, a three percent increase from last year but a 29 percent increase over the past five years. This is also considerably more than the $18,090 averaged by all respondents. The components of this compensation method include an average annual fee of $15,100 and an average per-meeting fee of $763. The upper quartile average for the billion dollar companies, included for comparative purposes, ranges from $26,810 to $36,510, with an average of $31,790, 12 percent more than the $28,390 average for all respondents.

—Annual Fee Only (14 percent)

In billion dollar corporations that pay an annual fee only, outside directors earned an average of $20,400, 27 percent more than the $16,100 average among all respondents. Directors of the $5 billion-and-over companies earned an average of $26,500.

7. Committee Compensation

Ninety percent of the billion dollar respondents pay their directors an additional fee for serving on committees and the percentage paying an annual plus per-meeting fee increased to 43 percent this year from 32 percent last year. Only nine percent pay an annual fee only.

Among the 48 percent that pay per-meeting fees only, the fees range from $590 per meeting for the benefits committee to $800 per meeting for the executive and finance committees. The committee chairmen are generally paid a higher fee.

Among the 43 percent that pay an annual plus per-meeting fee for committee service, the average total annual compensation ranges from $1,590 for the corporate ethics committee to $3,800 for the executive committee, with an overall average of $2,920. Here, too, chairmen are generally compensated at a higher rate.

8. Additional Compensation Information (Table 7)

The highest paid outside directors of billion dollar corporations earned an average $29,780 last year for all board service activities, exclusive of any consulting arrangements. This is 26 percent over the average $23,630 five years ago, a growth of approximately five percent per year.

The upper quartile averages, included for comparative purposes, range from $38,220 to $54,250 with an average of $44,310 (Table 7A). Thirty percent of outside directors also receive consulting fees.

The percentage of companies increasing fees declined over the past year as did the amount of the increases. Forty percent of the billion dollar respondents increased compensation to outside directors an average of $3,370, compared with an average increase of $4,570 two years ago and an average increase of $3,660 last year. Twenty-seven percent of the large companies contemplate raising director fees by an average of $3,250 during the next 12 months. Ninety percent expressed a conviction that, in general, their outside directors are adequately compensated. At 34 percent of the billion dollar respondents, the chairman is primarily responsible for board compensation. In 93 percent of the companies, the board annually reviews and establishes appropriate compensation for the chief executive officer. Ninety percent have a similar procedure for other senior officers.

Benefits are becoming increasingly important for outside directors. Compensation plans at 68 percent of the billion dollar companies permit outside directors to defer fees until retirement, up from 46 percent three years ago. And 27 percent now provide a retirement income plan, increasing 42 percent over the 19 percent with such plans a year ago. Other benefits commonly provided include travel expense reimbursement (94 percent), directors' liability insurance (92 percent), matching educational gift programs (63 percent) and accident insurance (62 percent) (Table 7B).

9. Board Practices and Policies (Table 8)

Billion dollar corporation boards meet an average of nine times per year, once more than the average for all respondents. Sixty-five percent hold at least one regular meeting away from their headquarters office and 15 percent hold at least one meeting outside the United States.

A billion dollar company director spends an average 152 hours per year on board-related business, including review, preparation, meeting attendance and travel, down slightly from last year's 155 hours. This is still considerably more than the 134 hours averaged five years ago. The average for all respondents is 125 hours this year. The upper quartile average is 214 hours for the billion dollar companies, compared with 194 for all respondents (Table 8).

Directors of the larger companies earn $149 per hour if compensated on an annual plus per-meeting fee basis, up from $142 last year.

Almost all (98 percent) of the billion dollar companies permit their chief executive officer to serve on outside public corporate boards. Chief operating officers and other key executives can do so in 76 percent and 74 percent, respectively, of the respondent billion dollar companies. Thirteen percent limit the number of outside directorships for the CEO, 15 percent for the COO and 18 percent for other key executives.

Eighty-seven percent of the billion dollar respondents have a mandatory retirement age policy for their directors, 67 for inside and 70 for outside directors. Seven percent state that their retirement policy is currently under review.

10. Locating Outside Directors (Table 9)

Thirty-three percent of the billion dollar corporations had at least one outside director resign from their boards this year. Retirement was by far the major reason but time demands and potential conflicts of interest were also factors. Forty-nine percent added new outside directors. And with 39 percent expecting a board vacancy in the coming year, it is clear that locating new directors is of paramount importance. To identify and select the new directors, the boards continue to rely heavily on recommendations by the chairmen (77 percent) and by other board members (71 percent).

The nominating committee, now used in the selection process by 67 percent, continues to grow in popularity. Also the use of executive search firms is increasing. Fourteen percent of the billion dollar companies and 32 percent of the $5 billion-and-over companies use executive search firms to help in selecting directors. Reliance on recommendations from other corporate officers and referrals from executive acquaintances is decreasing (Table 9).

General corporate experience (cited by 79 percent), especially in profitability, is preferred in director candidates. Specific industry experience (48 percent) and specific functional experience (47 percent) are other major factors. Fifty percent prefer fully employed executives as board members. Forty-seven percent have no preference in this area.

Nineteen percent had a prospective director decline an invitation to serve on their boards. The time commitment was the major reason cited for declining followed by being on too many boards and possible conflict of interest.

11. Issues (Table 10)

When asked to rank the importance of issues facing corporate boards today, two-thirds of the billion dollar respondents ranked financial results and 61 percent ranked strategic planning as first, second, or third. Other major issues identified by these companies include financing/capitalization (29 percent) managerial succession (27 percent) and day-to-day operations (22 percent) (Table 10). When asked to rank the relative importance of these same issues in five years, respondents anticipate strategic planning becoming the most important issue for corporate boards.

Financial results command the most time at corporate board meetings (22 percent) followed by day-to-day operations (16 percent) and strategic planning (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Of those industrials with sales volumes $1 billion or over, 215 participated in our Eleventh Annual Study.

Size of Company	Number of Companies	%
$1 billion-$2.999 billion	112	52.1%
$3 billion-$4.999 billion	46	21.4%
$5 billion and over	57	26.5%
TOTAL	215	100.0%

Exchange	Number of Companies	%
New York Stock Exchange	199	92.5%
American Stock Exchange	4	1.9%
Over-the-counter	6	2.8%
Other	6	2.8%
TOTAL	215	100.0%

TABLE 2—NUMBER OF DIRECTORS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion-$2.999 billion	4	8	12
$3 billiion-$4.999 billion	4	11	15
$5 billion and over	5	11	16
Average	4	10	14

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	79.1%	38.6%
No	20.4%	60.5%
No response	0.5%	0.9%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1979 Companies Over $1 Billion	1983 Companies Over $1 Billion	1983 All Companies Surveyed
Senior executive (other companies)	93.0%	93.0%	89.4%
Retired or previously employed corporate officer	65.8%	49.3%	46.9%
Commercial banker	56.3%	37.2%	33.2%
Attorney (provides legal services to the company)	31.0%	27.0%	30.2%
Academician	67.1%	65.6%	51.7%
Investment banker	33.5%	25.1%	22.9%
Major shareholder (not officer of the company)	27.8%	26.0%	30.4%
Attorney (does not provide legal services to the company)	39.2%	36.3%	34.3%
Former government official	36.1%	48.4%	30.2%
Female	42.4%	49.8%	43.4%
Ethnic minority member	28.5%	34.9%	25.9%
Non-U.S. citizen	24.1%	21.9%	15.4%
International executive (American)	15.8%	11.5%	8.1%
"Professional" director	N.A.	21.4%	18.2%
Retired executive (other companies)	N.A.	79.5%	70.0%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	29.0%	28.0%
Senior executives (other companies)	26.2%	24.0%
Former government officials	18.7%	16.0%
Attorneys (do not provide legal services)	12.1%	22.7%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1979 Companies Over $1 Billion	% 1983 Companies Over $1 Billion	% 1983 All Companies Surveyed
Audit	99.4%	99.1%	99.2%
Compensation	96.8%	84.7%	84.6%
Executive	87.3%	84.2%	80.4%
Nominating	66.5%	74.9%	59.4%
Finance	39.2%	43.3%	34.3%
Public affairs	14.6%	19.1%	12.6%
Corporate ethics	10.1%	7.9%	5.8%
Benefits	N.A.	34.9%	34.5%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Nominating	1	4	5
Finance	2	4	6
Public affairs	1	4	5
Corporate ethics	1	4	5
Benefits	0	4	4

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number Of Meetings	1983 Average Number Of Meetings
Audit	3	3
Compensation	4	4
Executive	3	3
Nominating	2	2
Finance	4	4
Public affairs	3	3
Corporate ethics	3	3
Benefits	4	3

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (84.2 percent of Respondents)

Annual Fee Amount	%
Under $7,000	3.4%
$7,000-$10,999	12.7%
$11,000-$13,999	15.5%
$14,000-$16,999	32.6%
$17,000 and over	35.2%
Unspecified	0.6%
TOTAL	100.0%
Average Annual Fee	$15,100

PLUS

Amount Per Meeting	%
Under $450	5.0%
$450-$599	25.4%
$600-$799	40.3%
$800-$999	9.4%
$1,000 and over	19.3%
Unspecified	0.6%
TOTAL	100.0%
Average Per-Meeting Fee	$763

EQUALS

Total Annual Compensation	%
Under $14,000	6.7%
$14,000-$16,999	9.4%
$17,000-$19,999	18.3%
$20,000-$24,999	35.6%
$25,000-$29,999	19.4%
$30,000 and over	10.6%
TOTAL	100.0%
Average Total Annual Compensation	$22,690

Size of Company	1979 Average Compensation	1983 Average Compensation	1983 Upper 25% Average
$1 billion-$2.999 billion	$15,940	$19,490	$26,810
$3 billion-$4.999 billion	$17,680	$23,840	$33,030
$5 billion and over	$22,730	$27,940	$36,510
Average	$17,630	$22,690	$31,790

FIVE-YEAR TREND

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. How much did the highest paid outside director receive in 1983 for all board activities exclusive of any consulting arrangement?

Amount	%
Under $14,000	2.8%
$14,000-$19,999	9.3%
$20,000-$24,999	20.9%
$25,000-$29,999	23.3%
$30,000-$39,999	24.7%
Over $40,000	13.0%
Unspecified	6.0%
TOTAL	100.0%
Average	$29,780

Highest Paid Directors

Size of Company	1979 Average Compensation	1983 Average Compensation	1983 Upper 25% Average
$1 billion-$2.999 billion	$23,160	$25,780	$38,220
$3 billion-$4.999 billion	$22,530	$31,890	$43,170
$5 billion and over	$26,600	$35,770	$54,250
Average	$23,630	$29,780	$44,310

FIVE-YEAR TREND

7B. What benefits are included in the compensation plan for outside directors?

	%
Travel expense reimbursement	94.4%
Directors' liability insurance	92.1%
Deferral of board fees until retirement	68.4%
Matching educational gifts program	63.3%
Accident insurance	61.9%
Travel expenses for spouse	30.7%
Retirement income plan	26.5%
Life insurance	24.2%
Medical insurance	10.7%

TABLE 8—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review, preparation, meeting attendance and travel?

Number of Hours	% 1979	% 1983
Under 70	23.4%	16.3%
70-100	27.2%	19.5%
101-160	22.1%	28.4%
161 and over	8.9%	22.3%
No response	18.4%	13.5%
TOTAL	100.0%	100.0%
Average	134 hours	152 hours

└ FIVE-YEAR TREND ┘

Size of Company	Number of Hours	Upper Quartile Average
$1 billion-$2.999 billion	150	203
$3 billion-$4.999 billion	138	193
$5 billion and over	167	236
Average	152	214

TABLE 9—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	% 1979	% 1983
Recommended by chairman	79.1%	76.7%
Recommended by board members	79.1%	71.2%
Nominating committee	65.8%	67.4%
Recommended by other corporate officers	50.6%	34.9%
Executive search	10.1%	14.4%
Referred by executive acquaintances	28.5%	12.6%

└ FIVE-YEAR TREND ┘

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	33.0%	52.1%	65.6%
Strategic planning	25.6%	46.1%	61.0%
Financing/Capitalization	3.3%	14.0%	28.9%
Day-to-day operations	10.7%	17.7%	22.4%
Managerial succession	9.3%	18.1%	26.5%
Mergers/Acquisitions	1.4%	6.1%	17.6%
Corporate ethics	1.9%	5.2%	9.4%
Multinational issues	0.9%	1.4%	5.6%
Government relations	0.5%	2.8%	4.6%
Shareholder relations	0.5%	2.8%	5.6%
Public relations	0.5%	1.4%	2.3%
Board compensation	0.5%	1.0%	1.5%

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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KORN/FERRY INTERNATIONAL

1984 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

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1984 Annual Board of Directors Study
of Insurance Companies

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Where appropriate, comparisons are made with all other responding corporations in our study.*

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 15 members. This is one less than last year but still more than the average for all respondents (13). Banks and financial institutions continue to have the largest boards, averaging 19.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards are composed primarily of outside directors, each averaging 12 outside directors compared to

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* This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total of which 215 have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.

only three inside directors, down one from last year. The averages for all respondents is four inside and nine outside directors.

Among insurance respondents, 91 percent believe that more than half their directors should come from outside the company. Of these, 61 percent believe that at least three-quarters should be outside directors, compared with only 37 percent for all respondents.

3. Board Composition (Table 3)

The two major sources of outside directors for insurance company boards are senior executives of other companies, noted by 93 percent, and retired executives of other companies, noted by 82 percent. This suggests that insurance companies, who exceed the overall average in both categories, are continuing to seek outside directors who are not only independent of the company but who have considerable management experience. This is further verified by the fact that 87 percent of the insurers cited corporate experience as the primary consideration in asking a prospective director to sit on their boards -- more than any other responding groups.

Insurers' boards also exceed the overall average in the percentage having women (57 percent vs. 43 percent) and

ethnic minorities (30 percent vs. 26 percent) represented (Table 3A). These two groups are drawn primarily from the ranks of senior executives of other companies, academicians, former government officials and, in the case of minorities, attorneys who do not provide legal services to the company (Table 3B).

Over the past five years, the percentage of insurance companies reporting academicians on their boards has increased from 60 percent to 70 percent -- well above the overall average of 52 percent. They are second only to the very largest industrials ($5 billion and up). The percentage of insurers having commercial bankers on their boards is the highest in the study (59 percent vs. 33 percent overall).

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Seventy-six percent of the insurance company respondents note that their chairman of the board is also their chief executive officer. Forty-eight percent report that their chief executive officer is also their chief operating officer.

5. Committees (Table 4)

The audit, executive and compensation committees continue to be the most prevalent standing committees among the insurance respondents. Insurers lead all other responding groups in the use of the executive (93 percent vs. 80 percent overall), finance (63 percent vs. 34 percent) and corporate ethics (15 percent vs. 6 percent) committees. However, the percentage reporting a benefits committee (15 percent) is the lowest in the study. Fifty-four percent report a nominating committee -- up from 46 percent last year (Table 4A).

The finance committee is again the largest, averaging seven members. This year, however, it is composed of one less inside director (two) than last year. The audit, compensation and nominating committees are composed entirely of outside directors (Table 4B). The finance committee is not only the largest, but it also meets most frequently, averaging eight meetings per year. The nominating committee holds the fewest meeting, averaging only two per year (Table 4C). Only 32 percent of the insurers believe that the amount of time directors devote to committees is increasing, compared to 45 percent of all respondents expressed this belief.

6. Compensation (Table 5)

Ninety-three percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting fee basis. Only one percent uses the per-meeting only method of payment and one pays an annual fee only.

- Annual plus Per-Meeting Fee (93 percent of the respondents)

Although the average total yearly compensation for outside directors of insurance companies has increased 37 percent over the past five years from $10,990 to $15,050, the group still lags behind all but the smaller industrials (under $400 million). Insurers are significantly below the $18,090 yearly average for all respondents. The components of the total compensation include a $10,100 average annual fee and a $583 average per-meeting fee (Table 5A).

The upper quartile average, included in this section for comparative purposes, is up from last year (from $22,920 to $24,520), but it is considerably below the average for all respondents ($28,390) (Table 5B).

7. Committee Compensation

Ninety-three percent of the insurers compensate their outside directors additionally for serving on a committee. The most prevalent form of payment continues to be a per-meeting fee only, used by 58 percent. As with all respondents, insurers are increasingly paying an annual plus per-meeting fee for committee service. This year, 36 percent report using this method, up from 26 percent last year. Four percent pay an annual fee only.

Among the 58 percent that pay a per-meeting fee only, fees range from $380 per-meeting for the corporate ethics committee to $630 for the executive committee. The overall average is $90. The corporate ethics committee has the the lowest compensation among companies that pay an annual plus per-meeting fee -- $1,900. Members of the finance committee have the highest average pay, $8,370. The average of all respondents is $3,550. Committee chairmen are generally compensated at a higher rate than committee members.

8. Additional Compensation Information (Table 6)

Forty-three percent of the insurance company respondents raised board fees an average $2,500 during the past year. Although the percentage raising fees is up compared to last

year's 39 percent, the average increase is down from $2,750. Twenty-four percent project an average increase of $2,360 during the next year. Ninety-four percent believe that their outside directors are adequately compensated.

The highest paid insurance company director earned $22,100, exclusive of consulting fees, this past year. Although this is still below the $23,100 average for all respondents, the upper quartile average of $42,880 is substantially above the $39,270 upper quartile average for all respondents. For the third consecutive year this average is exceeded only by industrials with revenues over $3 billion (Table 6). Twenty-one percent of the insurance respondents have at least one director who also receives consulting fees.

As seen with all respondents, benefits are becoming an increasingly important part of compensation plans for outside directors of insurance companies. Ninety-three percent now cover travel expenses (up from 86 percent last year), 85 percent provide directors' liability insurance (up from 75 percent), and 57 percent have matching educational gifts programs (up from 50 percent). Seventy percent have plans that allow deferral of board fees until retirement and 20 percent have formal retirement plans.

Ninety-four percent of the insurers have procedures whereby the board annual reviews and establishes appropriate compensation for the chief executive officer as well as for other senior officers.

9. Board Practices and Policies (Table 7)

For the seventh consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Forty-one percent report that they hold at least one of these meetings away from their headquarters office or a major facility city. Six percent hold at least one meeting outside the country during the year.

An outside director of an insurance company devotes an estimated 116 hours annually to board-related business. While this is up somewhat from last year's 107 hours, it is still below the 125-hour average for all respondents. The upper quartile average for insurers is 193 hours -- almost on par with the 194 overall average (Table 7A). Insurers' board members' hourly rate continues to be below the overall average ($130 vs. $145).

With 46 percent of the insurance respondents reporting an outside director resignation during the past year and 54 percent expecting a board vacancy during the coming year

(a high for the study), identifying and selecting new outside directors is of major importance. Insurance respondents continue to use the traditional means of recommendations by the board chairman and board members, but the use of the formal nominating committee continues to grow -- reported by 59 percent up from 52 percent last year (Table 7B). Corporate experience remains the primary consideration in asking a prospective director to sit on the board (Table 7C).

Only 11 percent of the insurance company respondents had a prospective director decline an invitation to serve on the board (Table 7D). This is down from 21 percent last year and below the 16 percent average for all respondents. The time commitment involved continues to be the major reason for a prospect's declining an invitation.

Ninety-four percent of the insurers permit their chief executive officer to serve on outside public corporate boards. Seventy-two percent allow the COO and 78 percent allow other key executives to serve on outside boards.

Ninety-three percent of the insurance respondents have mandatory retirement policies. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 8)

Financial results continue to be cited as the most significant issue facing insurance boards today. When asked to rank various issues in order of importance, 82 percent of insurers ranked it first, second or third. Other highly ranked issued include strategic planning and day-to-day operations (Table 8). More than a third (37 percent) of board meeting time is devoted to financial results.

TABLE 1 - PARTICIPATING COMPANIES

Fifty-four of America's major insurance companies participated in our Eleventh Annual Study.

Size (Sales)	No. of Insurers	%
Under $2 billion	15	27.8%
$2 billion and over	39	72.2%
TOTAL	54	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	15	27.8%
American Stock Exchange	1	1.8%
Over-the-Counter	9	16.7%
Mutual	7	13.0%
Private	21	38.9%
No Response	1	1.8%
TOTAL	54	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	3	9	12
$2 billion and over	3	14	17
Average	3	12	15

TABLE 3 - BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1979 Insurance Companies	1983 Insurance Companies	1983 All Companies Surveyed
Senior Executive (other companies)	91.2%	92.5%	89.4%
Retired or Previously Employed Corporate Officer	64.9%	53.7%	46.9%
Commercial Banker	56.1%	59.3%	33.2%
Attorney (provides legal services to the company)	35.1%	24.1%	30.2%
Academician	59.6%	70.4%	51.7%
Investment Banker	21.1%	18.5%	22.9%
Major Shareholder (not officer of the company)	19.3%	20.4%	30.4%
Attorney (does not provide legal services to the company)	38.6%	46.3%	34.3%
Former Government Official	31.6%	31.5%	30.2%
Female	50.9%	57.4%	43.4%
Ethnic Minority Representative	33.3%	29.6%	25.9%
Non-U.S. Citizen	15.8%	7.4%	15.4%
International Executive (American)	17.5%	11.0%	8.1%
"Professional" Director	N.A.	13.0%	18.2%
Retired Executive (other companies)	N.A.	82.5%	70.0%

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	35.5%	25.0%
Academicians	32.3%	18.8%
Former Government Officials	16.1%	25.0%
Attorneys (do not provide legal services)	3.2%	18.8%

TABLE 4 - COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1983 Insurance Companies	1983 All Companies Surveyed
Audit	98.1%	99.2%
Executive	92.6%	80.4%
Compensation	83.3%	84.6%
Finance	63.0%	34.3%
Nominating	53.7%	59.4%
Public Affairs	20.4%	12.6%
Corporate Ethics	14.8%	5.8%
Benefits	14.8%	34.5%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	0	4	4
Finance	2	5	7
Public Affairs	1	4	5
Nominating	0	4	4
Corporate Ethics	1	4	5
Benefits	1	2	3

4C. How many committee meetings were held during the past twelve months?

Committee	Average Number of Meetings
Audit	3
Executive	5
Compensation	3
Finance	8
Public Affairs	3
Nominating	2
Corporate Ethics	3
Benefits	3

TABLE 5 - COMPENSATION

5A. Annual plus Per-Meeting Fee (92.6% of the Respondents)

Annual Fee Amount	%
Under $3,000	4.0%
$3,000 - $6,999	16.0%
$7,000 - $10,999	48.0%
$11,000 - $13,999	10.0%
$14,000 and over	22.0%
OTAL	100.0%
Average Annual Fee	$10,100

PLUS

Amount Per Meeting	%
Under $250	6.0%
$250 - $449	18.0%
$450 - $599	30.0%
$600 - $799	28.0%
$800 and over	18.0%
TOTAL	100.0%
Average Per-Meeting Fee	$583

EQUALS

Total Annual Compensation	%
Under $7,000	6.0%
$7,000 - $10,999	22.0%
$11,000 - $13,999	24.0%
$14,000 - $16,999	20.0%
$17,000 - $24,999	22.0%
$25,000 and over	6.0%
TOTAL	100.0%
Average Total Annual Compensation	$15,050

5B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$15,050	$24,520
Banks and other Financial Institutions	$17,040	$25,930
Insurance Companies	$15,050	$24,520
Retailers	$19,120	$27,500
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million - $399 million	$14,680	$21,280
$400 million - $599 million	$16,740	$28,940
$600 million - $999 million	$16,780	$24,260
$1 billion - $2.999 billion	$19,490	$26,810
$3 billion - $4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$33,510
Average	$18,090	$28,390

TABLE 6 - COMMITTEE COMPENSATION

How much did the highest paid director receive in 1983 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	16.7%
$11,000 - $16,999	24.1%
$17,000 - $24,999	20.4%
$25,000 - $39,999	24.1%
$40,000 and over	9.2%
Unspecified	5.5%
TOTAL	100.0%
Average	$22,100

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$22,100	$42,880
Banks and other Financial Institutions	$23,980	$37,460
Retailers	$23,050	$42,180
Industrials		
Under $200 million	$11,640	$18,910
$200 million - $399 million	$16,800	$22,420
$400 million - $599 million	$17,440	$26,580
$600 million - $999 million	$20,590	$31,100
$1 billion - $2.999 billion	$25,780	$38,220
$3 billion - $4.999 billion	$31,890	$43,170
$5 billion and over	$35,770	$54,250
Average	$23,100	$39,270

TABLE 7 - BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annual on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	9.3%
41 to 70	18.5%
71 to 130	35.2%
131 to 190	20.4%
191 to 150	7.4%
251 and over	3.7%
No Response	5.5%
TOTAL	100.0%
Average	116 hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	116	193
Banks and other Financial Institutions	109	195
Retailers	130	181
Industrials		
Under $200 million	78	124
$200 million - $399 million	115	177
$400 million - $599 million	94	163
$600 million - $999 million	124	189
$1 billion - $2.999 billion	150	203
$3 billion - $4.999 billion	138	193
$5 billion and over	167	236
Average	125	194

7B. How are outside directors located for the board?

	%
Recommended by board members	79.6%
Recommended by chairman	77.8%
Nominating committee	59.3%
Recommended by other corporate officers	42.6%
Referred by executive acquaintances	14.8%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	87.0%
Specific Industry Experience	33.0%
Specific Functional Experience	33.0%
Prestige	14.8%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	11.1%
No	87.0%
No response	1.9%
TOTAL	100.0%

TABLE 8 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	57.4%	74.1%	81.5%
Strategic planning	14.8%	37.0%	66.6%
Day-to-day operations	7.4%	29.6%	42.6%
Managerial succession	5.6%	14.9%	22.3%
Financing/capitalization	1.9%	7.5%	22.3%
Mergers/acquisitions	---	3.7%	7.4%
Government relations	---	---	9.3%
Shareholder relations	3.0%	4.9%	4.9%
Corporate ethics	---	1.9%	3.8%

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Board of Directors
Eleventh Annual Study
Banks & Other Financial Institutions
Supplement 1984

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KORN/FERRY INTERNATIONAL
ELEVENTH ANNUAL BOARD OF DIRECTORS STUDY OF
BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

For the past 11 years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. This year, over 600 companies responded, and of these over 70 are financial institutions.

To enable directors of banks and other financial institutions to evaluate their board practices compared with others in their industry, we once again isolated the responses of these institutions in this special supplement to our Eleventh Annual Study.

As a general rule, the boards of financial companies have traditionally had greater demands placed on them than their industrial counterparts because of stringent government regulations, as well as high public visibility and accountability. As a result, certain trends specific to financial institutions have emerged that distinguish them from companies in other industries:

- Banks and other financial institutions continue to have the largest boards, averaging 19. They also continue to have the highest number of outside directors, with an average of four inside and 15 outside directors. Sixty-four percent of banks and other financial institutions prefer at least a three-quarter majority of outside directors on their boards.
- Banks and other financial institutions also have the highest number of regular board meetings—nine—with the upper quartile of this group averaging 195 hours per year or over three 60-hour weeks spent on board duties.
- Banks and other financial institutions added more new directors in 1983 than any other group. In appointing these new directors, nearly 70 percent report using a nominating committee.
- Financial companies indicate a strong preference for outside directors with extensive business experience. In fact, senior executives from other companies are represented on 95 percent of financial institutions' boards, with an average of ten on each board, double the average of all those surveyed. Eighty percent say corporate experience is the primary consideration in asking a prospective director to sit on their boards.

- Financial institutions once again lead the corporate community in appointing women and ethnic minorities to their boards. Seventy-five percent now have women on their boards while 45 percent have minorities.
- Although financial institutions have historically paid their directors less than the overall average, they have been closing the gap over the last few years. The highest average per-hour compensation among banks and other financial institutions is $156 versus $144 for all respondents.

The above highlights some of the important trends reflected in the answers of banks and other financial institutions that participated in our study. A more detailed discussion of trends follows in the Summary of Findings.

Lester B. Korn

Lester B. Korn

Richard M. Ferry

Richard M. Ferry

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to bank and other financial institution respondents (Table 1). Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and other financial institutions have an average of 19 directors on their board—six more than the average of all respondents and higher than any other group responding to this study. The boards of the largest banks ($2 billion and over) are even larger, averaging 20.

2. Inside Directors vs. Outside Directors (Table 2)

With an average of four inside and 15 outside directors, banks and other financial institutions have the strongest preference for outside director dominance. This year, 93 percent state that they prefer a majority of their board be composed of outside directors—significantly more than the 81 percent stating this preference among all respondents. Moreover, 64 percent of all financial institutions prefer that at least 75 percent of their board be outside directors, compared with only 37 percent for all respondents.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Banks and other financial institutions again report the highest percentage of chairmen who are also chief executive officers and have among the lowest percentage of chief executive officers who are also the chief operating officers. Eighty-eight percent state that their chairman is the CEO (compared to 77 percent for all respondents) while only 36 percent report that their CEO is also their COO (compared to 43 percent) for all respondents.

4. Board Composition (Table 4)

With their strong preference for outside representation, banks and other financial institutions rely heavily on senior executives of other companies and retired executives of other companies as their primary source of outside directors. Senior executives of other companies are on 95 percent of financial institutions' boards and retired executives of other companies are on 70 percent. Furthermore, these boards have an average of ten senior executives of other companies each (double the overall average of five). These boards also have an average of three retired executives of other companies each, compared with four or less in all other categories.

Eighty percent of financial respondents cite corporate experience as the primary consideration in asking a prospective director to sit on their boards.

**This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total, of which 215 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.*

The boards of banks and other financial institutions continue to have the highest percentage of women. Seventy-five percent now have women on their boards. This is not only up from 66 percent last year, but also is 74 percent above the average for all respondents (43 percent) (Table 4A). These women board members are drawn primarily from the ranks of senior executives of other companies and from academia, both categories cited by 20 percent of the financial respondents. Banks and other financial institutions are also among the leaders in ethnic minority representation. Minorities are on 45 percent of their boards, well above the 26 percent overall average. Only industrial companies with revenues over $3 billion register higher percentages of minorities on their boards. The financial companies draw most of their minority members from the ranks of senior executives of other companies (Table 4B).

Other groups represented significantly on financial boards include academicians (on 63 percent), retired or previously employed corporate officers (on 51 percent), attorneys who do not provide legal services (on 38 percent) and former government officials (on 37 percent). Finanical boards have, however, the lowest percentage of investment bankers—only seven percent compared to 23 percent for all respondents.

5. Committees (Table 5)

This year, every one of the 73 financial respondents reports having an audit committee. The other committees that continue to be the most prevalent are the executive and compensation committees, each cited by 84 percent. The nominating committee continues to grow in use and is now reported by 62 percent—up from 48 percent five years ago. Along with the larger industrials ($3 billion and over), financial companies lead in the use of the public affairs committee. Twenty-one percent now report having this committee compared to 13 percent for all respondents and up from 17 percent five years ago (Table 5A).

The executive committee is the largest with an average of eight members. The corporate ethics and benefits committees are the smallest with four members. Once again, the audit, compensation and benefits committees each are composed entirely of outside directors while the executive committee has the most inside directors—three (Table 5B).

The executive and finance committees meet most frequently, each averaging six meetings per year. The public affairs, nominating and corporate ethics have the fewest meetings, each averaging just two meetings per year (Table 5C). Fifty-eight percent of the financial respondents believe the amount of time directors devote to committees is increasing. None believe the amount of time is decreasing while the rest believe it remains the same.

6. Compensation (Table 6)

The annual plus per-meeting fee method of compensation is by far the most popular system of paying outside directors this year. Ninety-three percent of the bank and other financial institution respondents report using this method (up from 84 percent last year and from 78 percent two years ago), more than any group of participants. The annual-fee-only and per-meeting-fee-only methods of compensation were each reported by three percent of the financial respondents.

—Annual Plus Per-Meeting Fee (93 percent of the financial respondents)

The average total annual compensation for outside directors of banks and other financial institutions using this method of payment is $17,040. This is an increase of 11 percent over last year's average of $15,310 and represents a 57 percent increase over the past five years (from $10,820). While financial companies still lag behind other respondents to the study in total compensation, the gap is closing. Their average compensation is only six percent below the $18,090 overall average, much smaller than the 11 percent gap noted last year.

The components of this method consist of an average annual fee of $10,700 and an average per-meeting fee of $833.

This year, the average for financial companies in the upper quartile is $25,930 compared with $28,390 for all respondents in this group.

—Annual Fee Only (three percent of the respondents)

The average annual fee for financial companies went up from $14,600 last year to $17,000 this year. This is somewhat higher than the $16,100 overall average.

—Per-Meeting Fee Only (three percent of the respondents)

The per-meeting fee paid to outside directors of financial companies using this method of compensation averages $833.

7. Committee Compensation

Ninety-two percent of banks and other financial institutions compensate their outside directors for committee service. Although most (58 percent) still use the per-meeting-fee-only method of compensation, financial companies are increasingly paying an annual plus per-meeting fee—a trend noted among all respondents. This year, 36 percent of financial companies are paying in this manner, more than double last year's 14 percent. Only six percent pay only an annual fee for committee service.

Among the 58 percent that pay only a per-meeting fee, fees range from $390 per meeting for the public affairs committee to $500 for the corporate ethics committee. The average for all committees is $440—24 percent

below the $580 average for all respondents. For the 36 percent that use the annual plus per-meeting fee method, the average total compensation for all committees is $2,720 per year.

8. Additional Compensation (Table 7)

Although the average compensation for outside directors of the responding banks and other financial companies is below the average for all respondents, the highest paid of these directors averages $23,980—four percent more than the overall average of $23,100. This $23,980 average is a significant 16 percent increase over last year's $20,700. The upper quartile average among financial respondents is $37,460 (vs. $39,270 for all respondents) (Table 7). Thirty-three percent also pay at least one outside director additional consulting fees.

More than half (52 percent) of the financial respondents increased compensation an average $3,000 for their board members during 1983. Although this is more than the increase for all respondents ($2,850), it is well below the $4,410 average increase noted in the last year's study. Eighteen percent predict that they will raise board fees during 1984, projecting an average increase of $3,290. Ninety-three percent of the financial company respondents believe that their outside directors are adequately compensated.

Ninety-six percent of the banks and other financial institutions have a procedure whereby directors annually review and establish appropriate compensation for their chief executive officer—more than any other group of respondents. Ninety-two percent have such a procedure for other senior officers. Thirty-four percent report that their chairman is primarily responsible for establishing board compensation.

Along with the largest industrials, banks and other financial institutions lead in offering outside directors the option of deferring board fees until retirement. In 1983, 73 percent offered this option, up from 63 percent in 1982 and well above the 60 percent for all respondents. Another ten percent indicate that they are planning to institute this option. Other benefits commonly offered include directors' liability insurance (reported by 92 percent), travel expense reimbursement (92 percent), matching educational gifts program (43 percent) and accident insurance (40 percent). Fifteen percent have retirement plans for their outside directors.

9. Board Practices and Policies (Table 8)

Banks and other financial institutions had an average of nine regular board meetings last year, one more than the average of eight for all respondents. Thirty-eight percent held one or two of these meetings outside of their headquarters office or a major facility city. But of these, only six percent were held outside the United States.

An outside director of the financial respondents devoted an average of 109 hours to board-related business last year—16 hours less than the

average for all respondents. However, the upper quartile average for financial companies is 195 hours per year—one more than the upper quartile average for all respondents (Table 8A). In 1983, the hourly rate for directors of financial companies exceeded the hourly rate for all respondents—$156 per hour vs. $144 per hour. The $156 hourly rate represents a 16 percent increase over last year's rate of $134.

This year, 44 percent of the banks and other financial institutions reported an outside director resigning during the past year—primarily due to retirement. With 60 percent adding new outside directors (more than any other responding group) and 48 percent expecting a board vacancy during the coming year, it is clear that locating new outside directors is of major importance to financial companies. In identifying and selecting new directors, they continue to rely predominantly on recommendations by their chairmen and by other board members. They are, however, among the leaders in using the formal nominating committee. Sixty-seven percent report the use of this committee compared with 53 percent for all respondents (Table 8B). In asking a prospective director to sit on their board, 80 percent of the financial companies view corporate experience as the primary consideration. There is a decided preference for fully-employed outside directors (82 percent cited this preference compared to 56 percent for all respondents).

Eighteen percent of the banks and other financial institutions report that at least one prospective director declined an invitation to serve on their boards. The time commitment involved was the primary reason given for declining (Table 8C).

Ninety-six percent of the financial respondents permit their chief executive officer to serve on outside public corporate boards. Seventy percent permit the chief operating officer and 69 percent allow other key executives to do so.

Eighty-six percent have a mandatory retirement age—down from 95 percent last year. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 9)

Financial results and strategic planning continue to be the two most important issues facing the boards of banks and other financial institutions. When asked to rank various issues, 81 percent rank financial results either first, second or third and 66 percent ranked strategic planning among the top three. They are followed by financing/capitalization (36 percent) and day-to-day operations (30 percent) (Table 9). When asked to rank the same issues five years from now, financial results and strategic planning are again the top two. The greatest percentage of board meeting time is devoted to financial results (26 percent), followed by strategic planning (16 percent) and day-to-day operations (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Seventy-three of America's major banks and financial institutions participated in our Eleventh Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $2 billion	7	9.6%
$2 billion and over	66	90.4%
TOTAL	73	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	34	46.6%
American Stock Exchange	1	1.4%
Over-the-counter	27	37.0%
Other	11	15.0%
TOTAL	73	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institutions	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	2	11	13
$2 billion and over	4	16	20
Average	4	15	19

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	87.7%	35.6%
No	11.0%	61.6%
No response	1.3%	2.8%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1979 Financial Institutions	1983 Financial Institutions	1983 All Companies Surveyed
Senior executive (other companies)	93.3%	94.5%	89.4%
Retired or previously employed corporate officer	51.7%	50.7%	46.9%
Commercial banker	13.3%	20.5%	33.2%
Attorney (provides legal services to the company)	41.7%	32.9%	30.2%
Academician	60.0%	63.0%	51.7%
Investment banker	10.0%	6.8%	22.9%
Major shareholder (not officer of the company)	26.7%	23.3%	30.4%
Attorney (does not provide legal services to the company)	31.7%	38.4%	34.3%
Former government official	31.7%	37.0%	30.2%
Female	70.0%	75.3%	43.4%
Ethnic minority member	31.7%	45.2%	25.9%
Non-U.S. citizen	25.0%	19.2%	15.4%
International executive (American)	16.7%	11.0%	8.1%
"Professional" director	N.A.	23.3%	18.2%
Retired executive (other companies)	N.A.	69.9%	70.0%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	20.0%	24.2%
Senior executives (other companies)	20.0%	48.5%
Former government officials	9.1%	9.1%
Attorneys (do not provide legal services)	9.1%	9.1%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	100.0%	99.2%
Executive	83.6%	80.4%
Compensation	83.6%	84.6%
Finance	24.7%	34.3%
Nominating	61.6%	59.4%
Public affairs	20.5%	12.6%
Corporate ethics	5.5%	5.8%
Benefits	32.9%	34.5%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Executive	3	5	8
Compensation	0	5	5
Finance	2	4	6
Public affairs	1	5	6
Nominating	1	5	6
Corporate ethics	1	3	4
Benefits	0	4	4

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number Of Meetings	1983 Average Number Of Meetings
Audit	4	5
Executive	7	6
Compensation	4	4
Finance	4	6
Public affairs	3	2
Nominating	2	2
Corporate ethics	4	2
Benefits	3	3

TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (93.2 Percent of Respondents)

Annual Fee Amount	%
Under $5,000	7.4%
$5,000-$6,999	17.6%
$7,000-$10,999	26.5%
$11,000-$13,999	20.6%
$14,000 and over	26.5%
Unspecified	1.4%
TOTAL	100.0%
Average Annual Fee	$10,700

PLUS

Amount Per Meeting	%
Under $250	1.5%
$250-$449	26.5%
$450-$599	33.8%
$600-$799	23.5%
$800 and over	11.8%
Unspecified	2.9%
TOTAL	100.0%
Average Per-Meeting Fee	$833

EQUALS

Total Annual Compensation	%
Under $7,000	1.5%
$7,000-$10,999	17.6%
$11,000-$13,999	16.2%
$14,000-$16,999	16.2%
$17,000-$19,999	17.6%
$20,000-$24,999	20.6%
$25,000 and over	10.3%
TOTAL	100.0%
Average Total Annual Compensation	$17,040

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$17,040	$25,930
Insurance companies	$15,050	$24,520
Retailers	$19,120	$27,500
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million-$399 million	$14,680	$21,280
$400 million-$599 million	$16,740	$28,940
$600 million-$999 million	$16,780	$24,260
$1 billion-$2.999 billion	$19,490	$26,810
$3 billion-$4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$36,510
Average	$18,090	$28,390

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1983 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	6.8%
$11,000-$16,999	17.8%
$17,000-$24,999	30.2%
$25,000-$29,999	19.2%
$30,000-$39,999	17.8%
$40,000 and over	4.1%
Unspecified	4.1%
TOTAL	100.0%
Average	$23,980

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$23,980	$37,460
Insurance companies	$22,100	$42,880
Retailers	$23,050	$42,180
Industrials		
Under $200 million	$11,640	$18,910
$200 million-$399 million	$16,800	$22,420
$400 million-$599 million	$17,440	$26,580
$600 million-$999 million	$20,590	$31,100
$1 billion-$2.999 billion	$25,780	$38,220
$3 billion-$4.999 billion	$31,890	$43,170
$5 billion and over	$35,770	$54,250
Average	$23,100	$39,270

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	6.7%
41 to 70	15.1%
71 to 100	32.9%
101 to 160	20.6%
161 and over	13.7%
No response	11.0%
TOTAL	100.0%
Average	109 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks and other financial institutions	109	195
Insurance companies	116	193
Retailers	130	181
Industrials		
Under $200 million	78	124
$200 million-$399 million	115	177
$400 million-$599 million	94	163
$600 million-$999 million	124	189
$1 billion-$2.999 billion	150	203
$3 billion-$4.999 billion	138	193
$5 billion and over	167	236
Average	125	194

8B. How are outside directors located for the board?

	%
Recommended by chairman	84.9%
Recommended by board members	80.8%
Nominating committee	67.1%
Recommended by other corporate officers	52.1%
Referred by executive acquaintances	5.5%
Executive search	4.1%

8C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	17.8%
No	82.2%
TOTAL	100.0%

If yes, what is the predominant reason?

	%
Time commitment	61.5%
Conflict of interest	53.8%
On too many boards	7.7%

TABLE 3—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	52.1%	68.5%	80.8%
Strategic planning	16.4%	46.5%	65.7%
Financing/Capitalization	4.1%	15.1%	35.6%
Day-to-day operations	9.6%	21.9%	30.1%
Mergers/Acquisitions	1.4%	6.9%	17.9%
Managerial succession	4.1%	9.6%	16.4%
Multinational issues	–	5.5%	9.6%
Public relations	–	1.4%	2.8%
Government relations	–	1.4%	2.8%
Corporate ethics	–	1.4%	1.4%
Board compensation	–	–	1.4%

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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